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C O N F I D E N T I A L SECTION 01 OF 04 BAGHDAD 000358

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Classified By: CETI - Todd Schwartz, Acting. Reason 1.5 (b), (d)

[1](#)1. (SBU) SUMMARY: Both the GOI and UNAMI are working to enhance the prospects of meeting the benchmarks outlined in the International Compact with Iraq (ICI). The GOI is building the size and capacity of the small ICI secretariat, and has embarked upon a serious effort to pull together its draft of the ICI annual report. SRSF Staffan de Mistura convened donors for a series of meetings organized around ICI thematic working groups (TWG) January 31 - February 2, to discuss donor and GOI progress against ICI benchmarks during its first year, and to prepare a parallel donor report. UNAMI sees debt relief as a key commitment of donors, and an important incentive for Iraq to buy in fully to the ICI process. End Summary.

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ICI Secretariat Growing, Preparing Annual ICI Assessment  
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[1](#)2. (C) In meetings on January 26 and 28 Econoffs learned that the ICI secretariat has brought on additional staff, opened its office, and has one of four planned EC-funded technical advisors in place. We met January 26 with Dhia Mahdi--advisor to former Deputy Prime Minister Salam al Zubaie--who has been asked by Deputy Prime Minister Barham Salih take administrative charge of the TWGs and bring greater coherence and action to the them. (COMMENT: Dhia is favorably known to the Embassy and should be an effective ICI staffer. He has previously served on the ICI secretariat task force. It also is a welcome development to see Dr. Barham broaden senior Iraqi ICI administration among Iraq's ethnicities. END COMMENT) Dhia told Econoffs that his responsibility to manage all six (plus) of the TWGs is too much for a single person, and he plans to focus first on managing just the energy and human development TWGs. He expressed concern that the TWG members in several cases do not represent the breadth of Iraqi ministerial stakeholders, pointing specifically to the political reform TWG, which is staffed exclusively by members of the National Security Council (please protect). Dhia told Econoffs that DPM Salih had already initiated the process of drafting the Iraqi one year status report on ICI implementation by sending letters to line ministries requesting data, and a follow up package detailing a timeline for drafting, discussion, and finalizing the Iraqi report. (Note: Emailed this to NEA/I/ECON ) Ref B).

[1](#)3. (C) On January 28 Econoffs met with ICI Secretariat Head

Dr. Hadi Hussein and his deputy Mohammed Qaradaghi, and saw the new ICI offices that had been set up in January in a trailer outside DPM Salih's offices. The ICI offices had secretarial and functioning IT support. While the ICI

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Secretariat had planned to set up its office in the joint

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Iraqi-US Freedom Towers complex, this plan fell apart in January when getting office space in the building was not possible. (COMMENT: Due to security, the EC-funded technical advisors likely will remain at the Freedom Towers and will not be co-located with the ICI Secretariat, which hinders communication. END COMMENT) Qaradaghi explained that the ICI continues to build its staff, and has hired a database manager in addition to al Zubaie and other administrative support personnel. He told us that DPM Salih had already begun convening TWGs to prepare for drafting the annual report. In response to econoff's question about key ministerial staff missing from the membership list of most TWGs, Qaradaghi said the TWG membership had been decided by the ICI Executive Committee and could only be modified by that entity. (NOTE: UNAMI told us later that they had sat in on some of these sessions, which were well attended by GOI ministries and appeared to be reporting well on ICI benchmark performance, however UNAMI's hope is that the TWGs "move beyond reporting to planning." END NOTE.)

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UN Convenes Donors to Coordinate a One-Year Status Report  
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14. (U) UNAMI convened a series of Development Partner meetings corresponding with the ICI TWGs from January 31 through February 2. Donors met in configurations that focused on thematic issues of the ICI which will be assessed in the upcoming annual review in April. UNAMI's purpose was to coordinate donor comments on both Iraqi and donor performance over the last year against ICI benchmarks, and to suggest possible new benchmarks for the next period. UNAMI

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proposes that donors pull together a parallel donor report to be discussed with Iraqi counterparts in joint Iraqi-Donor TWGs beginning in late February. The USG was represented by Embassy Econ, Treasury, USAID, ITAO and Agriculture attache. Other donors included the EC, DFID, Australian Embassy, Japanese Embassy, Danish Embassy, Dutch Ambassador, Italian Embassy, German Ambassador, French Ambassador (note: who didn't speak), the Canadian International Development Agency, UNDP and OECD. These donors met in different groupings over the three days to discuss progress on ICI benchmarks relating to the Energy Sector Reforms, Governance and Institution Building, Public Resource Management, Economic Reforms, Human Development, and Agriculture Reforms.

15. (SBU) UN SRSG Staffan de Mistura opened the event noting that there has been a series of international reports on Iraq coming from the IMF, SIGIR and others noting some improvements in Iraq, that there is a sense now of greater security, and there are some economic improvements. He said that an Iraqi political "surge" is possible if we keep up the pressure, and in this context it is important for the ICI to show some real movement. De Mistura believed we have an opening to deepen the effectiveness of the ICI as a GOI-donor coordination mechanism ) and said that his conversations with PM Maliki and DPM Salih convince him that they too want to see the ICI succeed, and are serious about supporting the ICI secretariat. De Mistura said that the IRFFI will now focus on ICI, and that many/most projects should be co-financed as a signal of Iraqi ownership. The Iraqis had asked the UN for financing to support the expansion of the ICI secretariat, but this is not something the UN will do. From the donors, part, movement on debt relief would also constitute a strong signal to the Iraqis that the ICI process

is bearing fruit.

16. (SBU) De Mistura touched on Article 140, which he described as "the mother of all issues." He believed that solving the hydrocarbons legislation first would help open the way to eventually solving 140. The "good news," he said, was that hydrocarbons issues are all business--not disputes of religion or ideology--so reasonable and practical solutions can be found. De Mistura concluded by asked donors to "look at your work as developing momentum for the ICI to push the GOI into a political, legislative, and economic surge of its own."

17. (SBU) In his opening remarks UNAMI Deputy Guy Siri said that since the last Baghdad Coordinating Group in December UNAMI had supported DPM Salih,s preparation of the timetable for the annual report and neared completion of the ICI Medium Term Financial Framework database. Siri echoed de Mistura,s comment that UNAMI financial support for the ICI secretariat is a "no-no." Siri asked donors to press the GOI to fully fund the ICI secretariat, making a special appropriation if need be. Donors could contribute by generating further movement on debt relief. Siri noted that UN Special Advisor Ibrahim Gambari will travel to the Gulf region in early March to discuss relief of Iraqi debt still carried by Gulf countries, and said that Maliki had given Gambari a letter to convey to the Kuwaitis supporting the mission and indicating that if there is debt relief from the Gulf countries the GOI will pledge to spend equivalent funds in the Sunni areas of Iraq.

18. (SBU) UNAMI ICI Advisor Yahia Said asked donors to support further Iraqi buy-in to the ICI as a policy planning tool. He perceived that the GOI was moving on ICI benchmarks and recently had begun to build capacity of the ICI secretariat, but institutionalizing these advances remained

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our next big challenge. Iraqi planning and policy decisions taken outside the ICI framework (such as the recent amendment to the salary laws by the Finance Ministry) were problematic as they limit the scope of ICI discussion of overall reforms. Said urged donors to encourage the GOI to develop inter-ministerial coordination and planning, and said that the GOI doesn,t yet fully appreciate the potential power of the Policy Planning Unit of the ICI. Said concluded by hoping that the donor side would make progress on debt relief, the GOI would make progress on ICI benchmarks, and together we would enter into a "virtuous cycle."

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DEVELOPMENT PARTNER MEETINGS  
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19. (SBU) Donors met in six sessions from January 31 through February 2, focusing on the following TWG themes. Follows is a brief synopsis of over 18 hours of conversations:

-- ENERGY: Discussion focused on the three USG (and ICI) priorities: a) an integrated GOI energy strategy; b) improved

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capacity in the relevant ministries, and; c) helping Iraq achieve an &energy balance8 (e.g. by capturing flared gas for productive use). All participants noted a severe lack of coordination between the Ministry of Oil (MOO) and the Ministry of Electricity. The USDel will take the lead in coordinating the energy portion of the parallel donor report.

-- GOVERNANCE: DFID briefed on its capacity building in the Council of Ministers Secretariat (COMSEC) and noted that there had been some improvements in COMSEC operations. DFID is also working with COMSEC on planning, and noted COMSEC intends to set up an inter-ministry cell with 20 ministry representatives who will help develop a national strategic plan. Donors questioned whether this plan would be linked to the National Development Strategy, which the Ministry of

Planning and Development Coordination (MOPDC) was refining, and which informed the ICI. Yahia Said was concerned that the proliferation of planning cells was not in fact inked to the ICI,s Policy and Planning Unit. Donors identified legislation and the Council of Representatives as areas where further coordination, and further technical assistance, would be useful. DFID will have the lead on this portion of the parallel report.

-- PUBLIC RESOURCE MANAGEMENT: This session began with discussion of Iraqi buy-in to the ICI, and debt relief. UNAMI asked for an update from the USG on proposed action to move this forward. DFID briefed on its work with the MOPDC and MOF on intra-governmental fiscal relations. USAID said the Mission Director had recently signed a MOU with the MOF to re-start the Financial Management Information System (FMIS). MOF will take over the FMIS by September, 2008. In the meantime, USAID has begun a pilot tracking system at the provincial level. USAID also briefed on its programs with the Finance Committee of the COR, and with the MOF,s statistical agency (COSIT) to enhance data collection and analysis supporting the Consumer Price Index and GDP figures. Finally, USAID is working on a census of public employees, which will begin in late spring. The World Bank will take the lead for this portion of the parallel report.

-- ECONOMIC REFORMS: UNAMI proposed that the OECD Baghdad representative chair the economic reform TWG. The OECD rep said he was focusing on supporting the National Investment Commission, following the work of USAID, and implementation of the Investment Law. OECD will also work on anti-corruption -- and is looking for partners in that effort ) with a focus on public procurement. DFID briefed on its efforts to enhance investment in the Basrah area by setting up the Basrah Investment Commission, the Basrah Investment Promotion Association, and the Basrah Development Fund, which are mutually reinforcing. Donors believed that this structure was a good pilot for the rest of Iraq. The EC rep expressed concern that Iraq,s WTO accession appeared to be stalled. Italy has a 400 million euro soft loan program ) the first 100 million of which would be in the agricultural sector and would provide SME lending through state owned banks, in a "structured fashion to both increase bank capacity and support the private sector." USAID noted that, although there was much to be done, WTO accession was not stalled, that the first Working Party had had its questions answered, and that the GOI was waiting to hear back from it. USAID also briefed on its extensive SME and micro-financing programs. UNAMI said the ICI secretariat was planning an investment "road show." The Dutch were promoting private sector investment in the KRG as a "gateway to Iraq." Japan was focusing on business exchanges outside Iraq, but found it difficult to identify Iraqi businessmen and suggested the ICI address impediments to business-to-business exchanges. OECD will take the lead for this portion of the parallel report.

-- HUMAN DEVELOPMENT AND SECURITY: UNAMI conceded that this theme was very broad, and donors were doing lots of things that would not be captured in the ICI benchmarks. Siri said UNAMI is trying to beef up its presence in Baghdad, and move from coordinating projects to helping shape strategies and programs. He said UNAMI expects to have several senior level policy coordination advisors in different sectors, including the human development issues, and had already refurbished its offices to house them. Donors discussed investments and capacity building programs in health and education, social safety net reform including the public distribution system, the question of a national ID card (which Siri suggested could become a new ICI benchmark), housing, and environmental remediation/water and sanitation. UNDP will take the lead for this portion of the parallel report.

-- AGRICULTURE: The Danish Embassy noted that Danish programs are shifting from work in the south to capacity

building in the Ministry of Agriculture (MoA). The Australian Embassy indicated the agriculture sector will be the likely main focus of assistance under the new GOA. USAID briefed on its INMA program, saying that the focus is on developing a value chain in three areas (livestock, dates, and annual horticulture) and capacity building at MoA. Donors agreed that this sector presented great opportunities for private sector and employment growth, yet required a competent government to regulate safety and phytosanitary issues, especially if Iraq is to export food. It was not clear whether the GOI bureaucracy was ready to shift from its command orientation. If we are to get the GOI to begin sharing the cost burden of reforms under the ICI, we will need to continue capacity building efforts at the MoA and among the private commodity organizations. Donors agreed that short term leaseholding was also a constraint to financing of agricultural development. The Danish Embassy will take the lead for this portion of the parallel report.

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COMMENT  
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¶10. (C) In Ref A we reported Siri's comment that some in the UN secretariat are not convinced that the ICI is working as well as UNAMI has been reporting. The reinvigorated push on ICI in the run up to its one year anniversary, driven by de Mistura, appears to be as much an effort to manage the UN as it is to ensure that the GOI takes it on fully. Despite UNAMI's assurances that the GOI is increasingly positive on the ICI, we continue to hear skepticism from contacts in the GOI -- Planning Ministry official Faik al-Rasoul's recent comments on ICI at the Naples IRRF meeting are but one example. In addition, Prime Minister Maliki has yet to appoint someone from his office to become more involved with the ICI at the Secretariat-level. This may account for UNAMI having pressed repeatedly the point that debt relief is of great importance to generate further Iraqi buy-in to the ICI. BUTENIS